

# LET'S PRACTICE MAKING A PROFIT

This is the story of Goodies Gift Shop in its third year of operation in Small Town USA. Amelia Goodies, the owner, runs the shop with 4 full time employees, 2 part timers and herself. Her sales last year were \$500,000 and her profit was \$20,000 after taxes. If her balance sheet shows a net worth of \$100,000 can you tell us what her return on investment was last year?

Balance Sheet (Year 2)

Current Assets:	
Cash	\$ 10,000
Accounts Receivable	\$ 15,000
Inventory	\$200,000
Property and Equipment	\$100,000
Total Assets	\$325,000
Liabilities:	
Accounts Payable	\$ 80,000
Loan Balance	\$145,000
Owners Equity	\$ 100,000
Total Liabilities and Equity	\$325,000

This year Amelia has projected sales of \$600,000 with a margin of \$250,000. She has budgeted the following overhead:

Owner Salary	\$ 35,000
Employee Wages	100,000
Rent	10,000
Advertising	4,200
Supplies	1,000
Telephone	1,000
Other utilities	600
Insurance	2,000
Payroll taxes	30,000
Interest on Loan	10,000
Maintenance	3,700
Legal and other professional fees	500
Miscellaneous	2,000
Total Overhead Expenses	\$200,000

If taxes are 20% of Net Income, what is the planned profit for the year?

## EFFECTS ON PROFIT

The day-to-day decisions for the gift shop and the level of business Amelia is able to maintain will affect this budget, resulting in many variations of the plan. Discuss with other students the effects the following issues would have on profit.

1. The employees demand a 10% raise
2. The lease is up on the building and the owner would like to sell her the building for \$150,000 or increase the rent to \$15,000.
3. Amelia is considering adding another full time employee for an annual cost of \$20,000
4. Insurance coverage is too low and she needs to double it
5. There are new opportunities to advertise in connection with community events that would expand her advertising budget.
6. She needs to buy a computer to improve her record keeping systems
7. Shoplifting losses force her to increase her markup an extra 5%.
8. Sales in the first six months have been 10% below expectations.
9. Her daughter Aborrows≡ money from the register and does not repay it.
10. She is considering buying a used van for \$10,000 and offering free delivery services to her customers.

What advice would you give Amelia about running her business after considering the information you have been given. What additional information would you like to have in order to discuss this case?

Do you now have a better understanding of PROFIT?

For more help in answering these questions please refer to the ***PACE*** curriculum units *on Pricing, Analyzing Finances, and The Business Plan*. Available from The Center on Education and Training for Employment, The Ohio State University, Columbus, OH (800-848-4815)